

SPEARFISH SCHOOL DISTRICT NO. 40-2  
SPEARFISH, SOUTH DAKOTA

---

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS  
JUNE 30, 2008

## **SPEARFISH SCHOOL DISTRICT NO. 40-2**

### **TABLE OF CONTENTS**

	<u>PAGE</u>
Independent Auditor's Report .....	1-2
Management's Discussion and Analysis .....	3-11
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets .....	12
Statement of Activities .....	13
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet .....	14
Reconciliation of Governmental Funds Balance Sheet to Government-Wide Statement of Net Assets .....	15
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances .....	16-18
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to Government-Wide Statement of Activities .....	19
Proprietary Funds Balance Sheet .....	20
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	21
Proprietary Funds Statement of Cash Flows .....	22
Statement of Fiduciary Net Assets .....	23
Statement of Changes in Fiduciary Net Assets .....	24
Notes to Financial Statements .....	25-38
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – General Fund .....	39-40
Budgetary Comparison Schedule – Capital Outlay Fund .....	41
Budgetary Comparison Schedule – Special Education Fund .....	42
Budgetary Comparison Schedule – Pension Tax Fund .....	43
Notes to Required Supplementary Information .....	44
<i>Single Audit Section:</i>	
Summary Schedule of Prior Audit Findings .....	45
Schedule of Findings, Questioned Costs, and Corrective Action Plan .....	46-49

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**TABLE OF CONTENTS (CONTINUED)**

	<u>PAGE</u>
Schedule of Expenditures of Federal Awards . . . . .	50-51
<i>Other Reports:</i>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards . . . . .	52-53
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. . . . .	54-55



-1-  
**Ketel Thorstenson, LLP**

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

**INDEPENDENT AUDITOR'S REPORT**

School Board  
Spearfish School District No. 40-2  
Lawrence County, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Lawrence County, South Dakota, as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2009, on our consideration of the District's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, and the required supplementary budgetary information on pages 39 through 44, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP  
Certified Public Accountants

February 3, 2009

## **SPEARFISH SCHOOL DISTRICT NO. 40-2**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008**

This section of Spearfish School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2008. Please read it in conjunction with the District's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

- The District's net assets from governmental and business-type activities increased \$1,834,761 primarily due to an increase in property tax revenue.
- The total cost of the District's programs increased by 5.40 percent, which is primarily due to increases in wages and technology purchases.
- The general fund reported a \$3,794,477 current year fund balance.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.
  - Proprietary fund statements offer short and long-term financial information about the activities that the school operates like businesses. The only proprietary funds operated by the District are the Food Service Fund and Internal Service Fund.
  - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

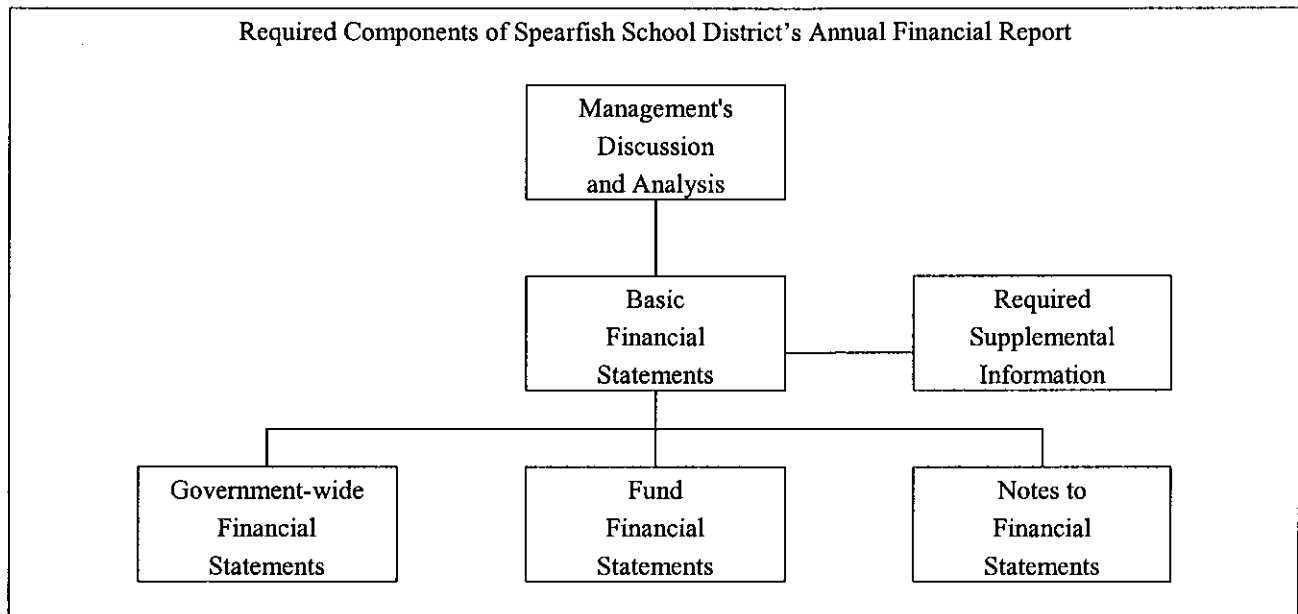
The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Figure A-1



**Government-Wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** - This category includes the District's basic instructional services (elementary, high school educational programs, etc.), support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-Type Activities** - The District charges a fee to students to help cover the costs of providing lunch services to all students. The Food Service Fund and the Internal Service Fund are the only business-type activities of the District.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The District has three kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Fund and Internal Service Fund are the only proprietary funds maintained by the District.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.



**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

	<b>Government-wide Statements</b>	<b>Fund Statements</b>		
	<b>Entire District government (except fiduciary funds)</b>	<b>Governmental Funds</b> The activities of the District that are not proprietary or fiduciary, such as elementary and high school education programs	<b>Proprietary Funds</b> Activities the District operates similar to private business- food service and internal service	<b>Fiduciary Funds</b> Instances in which the District is the trustee or agent for someone else's resources
<b>Scope</b>				
<b>Required Financial Statements</b>	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows	Statement of Fiduciary Net Assets and Statement of of Changes in Fiduciary Net Assets
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/ Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short- term and long-term; the District's funds do not currently contain capital assets although they can
<b>Type of Inflow/ Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**SPEARFISH SCHOOL DISTRICT NO. 40-2****MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008****FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**Net Assets

The District's combined net assets increased as follows:

Table A-1

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2007	2008	2007	2008	2007	2008
Current and Other Assets	\$ 17,128,937	\$ 14,811,509	\$ 96,166	\$ 139,613	\$17,225,103	\$ 14,951,122
Capital Assets	15,965,968	19,852,985	61,016	48,754	16,026,984	19,901,739
<b>Total Assets</b>	<b>\$ 33,094,905</b>	<b>\$ 34,664,494</b>	<b>\$ 157,182</b>	<b>\$ 188,367</b>	<b>\$33,252,087</b>	<b>\$ 34,852,861</b>
Long-Term Liabilities	\$ 7,608,771	\$ 6,619,605	\$ -	\$ -	\$ 7,608,771	\$ 6,619,605
Other Liabilities	5,334,348	6,089,527	25	25	5,334,373	6,089,552
<b>Total Liabilities</b>	<b>\$ 12,943,119</b>	<b>\$ 12,709,132</b>	<b>\$ 25</b>	<b>\$ 25</b>	<b>\$12,943,144</b>	<b>\$ 12,709,157</b>
<b>Net Assets:</b>						
Invested in Capital Assets,						
Net of Related Debt	\$ 13,373,930	\$ 13,732,985	\$ 61,016	\$ 48,754	\$13,434,946	\$ 13,781,739
Restricted	3,658,689	4,865,020	96,141	139,588	3,754,830	5,004,608
Unrestricted	3,119,167	3,357,357	-	-	3,119,167	3,357,357
<b>Total Net Assets</b>	<b>\$ 20,151,786</b>	<b>\$ 21,955,362</b>	<b>\$ 157,157</b>	<b>\$ 188,342</b>	<b>\$20,308,943</b>	<b>\$ 22,143,704</b>
Beginning Net Assets	\$ 18,293,881	\$ 20,151,786	\$ 107,332	\$ 157,157	\$18,401,213	\$ 20,308,943
Change in Net Assets	1,857,905	1,803,576	49,825	31,185	1,907,730	1,834,761
Percentage of Change in Net Assets	10.16%	8.95%	46.42%	19.84%	10.37%	9.03%

This section explains the differences between the current and prior year's assets, liabilities, and changes in net assets.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, early retirement benefits payable, general obligation bonds, a note payable, and capital outlay certificates payable, have been reported in this manner on the Statement of Net Assets. The difference between the District's assets and liabilities is its net assets.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

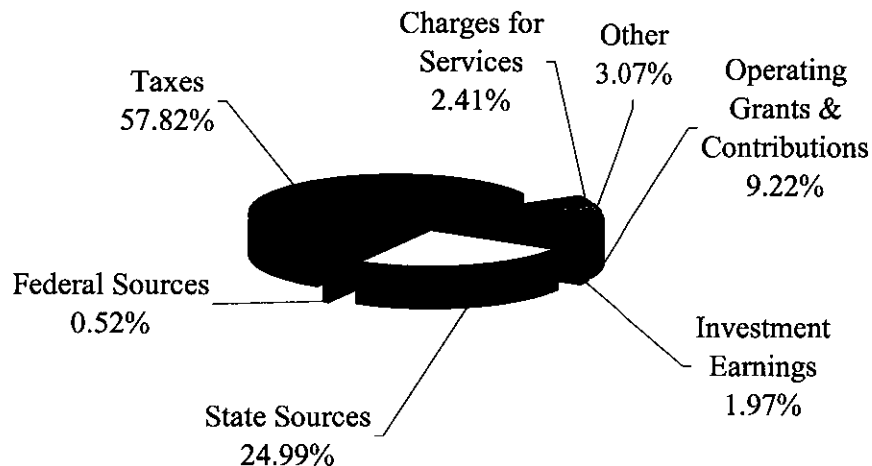
Changes in Net Assets

This section illustrates condensed financial comparison of revenues and expenses and provides explanations for significant differences.

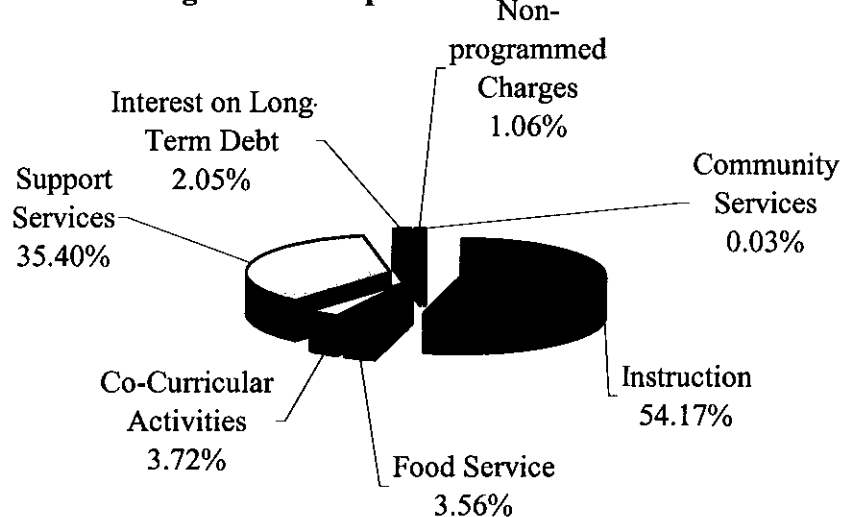
The District's revenues totaled \$16,788,826 for the year ended June 30, 2008. (See Table A-2.) Approximately sixty percent of the District's revenue comes from property and other taxes, with another fourth coming from state aid. (See Figure A-3).

The total cost of all programs and services was \$14,954,065 for the year. The District's expenses cover a range of services, encompassing instruction, support services, and food services. (See Figure A-4)

**Figure A-3: Revenue for Fiscal Year 2008**



**Figure A-4: Expenses for Fiscal Year 2008**



## SPEARFISH SCHOOL DISTRICT NO. 40-2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2007	2008	2007	2008	2007	2008
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 64,109	\$ 76,775	\$ 350,785	\$ 327,697	\$ 414,894	\$ 404,472
Operating Grants and Contributions	699,625	1,311,830	215,376	235,526	915,001	1,547,356
<i>General Revenues</i>						
Taxes	9,436,787	9,707,792	-	-	9,436,787	9,707,792
Revenue State Sources	3,801,683	4,195,736	-	374	3,801,683	4,196,110
Revenue Federal Sources	669,559	87,500	-	-	669,559	87,500
Other General Revenues	535,035	515,381	-	-	535,035	515,381
Unrestricted Investment Earnings	322,752	329,524	579	691	323,331	330,215
<b>Total Revenues</b>	<b>\$ 15,529,550</b>	<b>\$ 16,224,538</b>	<b>\$ 566,740</b>	<b>\$ 564,288</b>	<b>\$ 16,096,290</b>	<b>\$ 16,788,826</b>
<b>Expenses</b>						
Instruction	\$ 7,693,717	\$ 8,101,076	\$ -	\$ -	\$ 7,693,717	\$ 8,101,076
Support Services	5,103,992	5,293,481	-	-	5,103,992	5,293,481
Community Services	4,076	4,384	-	-	4,076	4,384
Non-programmed Charges	225,746	158,379	-	-	225,746	158,379
Co-Curricular Activities	518,393	556,587	-	-	518,393	556,587
Interest on Long-Term Debt	125,721	307,055	-	-	125,721	307,055
Food Service	-	-	516,915	533,103	516,915	533,103
<b>Total Expenses</b>	<b>\$ 13,671,645</b>	<b>\$ 14,420,962</b>	<b>\$ 516,915</b>	<b>\$ 533,103</b>	<b>\$ 14,188,560</b>	<b>\$ 14,954,065</b>
<b>Change in Net Assets</b>	<b>\$ 1,857,905</b>	<b>\$ 1,803,576</b>	<b>\$ 49,825</b>	<b>\$ 31,185</b>	<b>\$ 1,907,730</b>	<b>\$ 1,834,761</b>
<b>Ending Net Assets</b>	<b>\$ 20,151,786</b>	<b>\$ 21,955,362</b>	<b>\$ 157,157</b>	<b>\$ 188,342</b>	<b>\$ 20,308,943</b>	<b>\$ 22,143,704</b>

Governmental Activities

While the District experienced normal individual revenue fluctuations during the 2008 year compared to the 2007 year, the total revenues of the District's government activities increased by 4.48 percent due mainly to increases in assessed valuations and increase in operating grants. The increase in expenditures of 5.48 percent was primarily due to the District's decision to continue with current staffing levels and increases in salaries and benefits.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)**

Business-Type Activities

Revenues of the District's business-type activities decreased by .43%, and expenses increased by 3 percent. The primary reason for the increase was due to an increase in the price of food.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The General Fund experienced a very slight increase in fund balance by successfully matching revenues to expenditures. Both expenditures and revenues increased slightly in most areas. Revenues were added by the short term increase in interest income. The expenditure increase was due to maintaining staff levels and increases in salaries and benefits. Capital Outlay, Special Education and Pension Funds showed increases in fund balances due to increases in revenue due to a rise in assessed valuations.

**BUDGETARY HIGHLIGHTS**

There were no significant budget changes.

Net variances were due to an increase in assessed value and fluctuations in taxes.

**CAPITAL ASSET ADMINISTRATION**

By the end of 2008, the District had invested \$19,901,739 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) This amount represents a 24 percent increase from last year, mainly due to the high school addition.

Table A-3

	<b>Capital Assets (Net of Depreciation)</b>			
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2007	2008	2007	2008
Land	\$ 146,305	\$ 146,305	\$ -	\$ -
Buildings	14,298,029	14,105,423	-	-
Machinery and Equipment	990,396	1,076,866	73,278	48,754
Construction in Progress	531,238	4,524,391	-	-
<b>Total Capital Assets (Net)</b>	<b>\$ 15,965,968</b>	<b>\$ 19,852,985</b>	<b>\$ 73,278</b>	<b>\$ 48,754</b>

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**LONG-TERM DEBT**

Table A-4

<b>Outstanding Debt and Obligations</b>				
	<b>2007</b>	<b>2008</b>	<b>Total Dollar Change</b>	<b>Total Percentage Change</b>
General Obligation Certificates - 2007	\$ 5,000,000	\$ 4,610,000	\$ (390,000)	-8%
General Obligation Bonds - 2005	2,085,000	1,510,000	(575,000)	-28%
Early Retirement	309,655	315,261	5,606	2%
Compensated Absences	214,116	184,344	(29,772)	-14%
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 7,608,771</b>	<b>\$ 6,619,605</b>	<b>\$ (989,166)</b>	<b>-13%</b>

Compensated absences consist of annual leave and sick leave to those that meet the eligibility requirements.

The District also maintains an early retirement plan, which allows those meeting certain qualifications to retire early and receive 100 percent of their last three years' average salaries in three equal payments over the next three years. This plan allows the District to reduce the overall program cost by hiring lower paid teachers to replace the higher paid teachers.

In fiscal year 2008, the District paid \$575,000 for principal and \$61,125 for interest for the 2005 General Obligation Bonds.

The District also paid \$390,000 in principal and \$247,730 for interest in 2008 for the High School addition.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's current economic position has shown change. The District experienced an increase in total property valuation of \$100,251,007 or 11.49 percent from the prior year. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes; however, the total amount, which can be levied, is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$4,528.80 per pupil. Enrollment increased 32 students from 1,966 students for the average daily membership (ADM) and, coupled with the increase in per student allocation, the District received an increase in State Aid revenue of approximately \$470,870.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Spearfish School District's Business Office, 525 East Illinois, Spearfish, SD 57783.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
Cash and Investments	\$ 9,528,117	\$ 120,022	\$ 9,648,139
Taxes Receivable	4,941,356	-	4,941,356
Receivables (Note 3)	144,708	-	144,708
Inventories	-	19,591	19,591
Other Assets	197,328	-	197,328
Capital Assets (Note 5):			
Land	146,305	-	146,305
Buildings, Net of Depreciation	14,105,423	-	14,105,423
Equipment, Net of Depreciation	1,076,866	48,754	1,125,620
Construction in Progress	4,524,391	-	4,524,391
<b>TOTAL ASSETS</b>	<b>\$ 34,664,494</b>	<b>\$ 188,367</b>	<b>\$ 34,852,861</b>
<b><u>LIABILITIES</u></b>			
Accounts Payable	\$ 412,238	\$ -	\$ 412,238
Other Current Liabilities	854,648	25	854,673
Deferred Revenue	4,822,641	-	4,822,641
Long-Term Liabilities (Note 6):			
Due Within One Year	1,391,391	-	1,391,391
Due in More than One Year	5,228,214	-	5,228,214
<b>TOTAL LIABILITIES</b>	<b>12,709,132</b>	<b>25</b>	<b>12,709,157</b>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets, Net of Related Debt	13,732,985	48,754	13,781,739
Restricted for:			
Capital Outlay	2,704,083	-	2,704,083
Special Education	357,146	-	357,146
Pension Tax	528,069	-	528,069
Debt Service	683,697	-	683,697
Capital Projects	592,025	-	592,025
Food Service	-	139,588	139,588
Unrestricted	3,357,357	-	3,357,357
<b>TOTAL NET ASSETS</b>	<b>21,955,362</b>	<b>188,342</b>	<b>22,143,704</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 34,664,494</b>	<b>\$ 188,367</b>	<b>\$ 34,852,861</b>

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities:</i>						
Instruction	\$ 8,101,076	\$ 18,440	\$1,311,830	\$ (6,770,806)	\$ -	\$ (6,770,806)
Support Services	5,293,481	-	-	(5,293,481)	-	(5,293,481)
Community Services	4,384	-	-	(4,384)	-	(4,384)
Non-programmed Charges	158,379	-	-	(158,379)	-	(158,379)
Co-Curricular Activities	556,587	58,335	-	(498,252)	-	(498,252)
Interest on Long-Term Debt *	307,055	-	-	(307,055)	-	(307,055)
	14,420,962	76,775	1,311,830	(13,032,357)	-	(13,032,357)
<i>Business-Type Activities:</i>						
Food Service	533,103	327,697	235,526	-	30,120	30,120
Total Primary Government	\$ 14,954,065	\$ 404,472	\$1,547,356	(13,032,357)	30,120	(13,002,237)
<b>General Revenues</b>						
<b>Taxes:</b>						
Property Taxes				9,557,502	-	9,557,502
Gross Receipts Taxes				150,290	-	150,290
<b>Revenue from State Sources:</b>						
State Aid				4,195,736	374	4,196,110
Revenue from Federal Sources				87,500	-	87,500
Unrestricted Investment Earnings				329,524	691	330,215
Other General Revenues				515,381	-	515,381
Total General Revenues				14,835,933	1,065	14,836,998
Change in Net Assets				1,803,576	31,185	1,834,761
Net Assets -- June 30, 2007				20,151,786	157,157	20,308,943
Net Assets -- June 30, 2008				\$ 21,955,362	\$ 188,342	\$ 22,143,704

\* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The accompanying notes are an integral part of this statement.



<b>Bond Redemption Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
\$ 681,220	\$ 1,001,839	\$ 9,528,117
139,898	-	4,874,144
4,045	-	67,212
-	-	7,295
-	-	137,413
-	-	197,328
<b>\$ 825,163</b>	<b>\$ 1,001,839</b>	<b>\$ 14,811,509</b>

\$ -	\$ 412,238	\$ 412,238
-	-	690,272
-	-	164,376
142,395	-	4,889,853
<b>142,395</b>	<b>412,238</b>	<b>6,156,739</b>

-	-	197,328
682,768	589,601	8,457,442
<b>682,768</b>	<b>589,601</b>	<b>8,654,770</b>
<b>\$ 825,163</b>	<b>\$ 1,001,839</b>	<b>\$ 14,811,509</b>

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO GOVERNMENT-WIDE  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

Total Fund Balances - Governmental Funds	\$ 8,654,770
--	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,852,985
---	------------

Long-term liabilities, including general obligation bonds, capital outlay certificates payable, accrued leave payable, and early retirement payable are not due in the current period and, therefore, are not reported in the funds.	(6,619,605)
--	-------------

Assets such as delinquent taxes receivable are not available to pay for the current period expenditures and therefore are deferred in the funds.	67,212
--	--------

---

<b>Net Assets - Governmental Funds</b>	<b>\$ 21,955,362</b>
--	----------------------

---

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**

**BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>General Fund</b>	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Tax Fund</b>	<b>Bond Redemption Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b><u>REVENUES</u></b>							
<i>Revenue from Local Sources:</i>							
Taxes:							
Ad Valorem Taxes	\$ 5,167,973	\$ 2,451,903	\$ 1,144,241	\$ 245,225	\$ 385,422	\$ -	\$ 9,394,764
Prior Years' Ad Valorem Taxes	77,932	29,683	13,852	2,969	8,276	-	132,712
Gross Receipts Taxes	150,290	-	-	-	-	-	150,290
Other Taxes	-	-	-	-	1,484	-	1,484
Penalties and Interest on Taxes	13,072	5,259	2,454	526	-	-	21,311
Tuition and Fees:							
Regular Day School Tuition	18,440	-	-	-	-	-	18,440
Earnings on Interest-Bearing Accounts:							
Interest Earned	118,246	68,634	1,400	2,816	32,594	105,834	329,524
Co-Curricular Activities:							
Admissions	47,064	-	-	-	-	-	47,064
Pupil Organization Memberships	10,470	-	-	-	-	-	10,470
Rentals	801	-	-	-	-	-	801
Other Local Revenue:							
Rentals	15,201	-	-	-	-	-	15,201
Other	109,322	-	-	-	-	-	109,322
<i>Revenue from Intermediate Sources:</i>							
County Sources:							
County Apportionment	390,858	-	-	-	-	-	390,858
<i>Revenue from State Sources:</i>							
Grants-in-Aid:							
Unrestricted Grants-in-Aid	4,195,736	-	-	-	-	-	4,195,736
Other State Revenue	-	51,838	289,923	-	-	-	341,761
<i>Revenue from Federal Sources:</i>							
Grants-in-Aid:							
Unrestricted Grants-in-Aid							
Received from Federal							
Government Through State	87,500	-	-	-	-	-	87,500
Restricted Grants-in-Aid							
Received from Federal							
Government Through State	571,968	-	398,101	-	-	-	970,069
<b>Total Revenues</b>	<b>10,974,873</b>	<b>2,607,317</b>	<b>1,849,971</b>	<b>251,536</b>	<b>427,776</b>	<b>105,834</b>	<b>16,217,307</b>

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**

**BALANCES (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>General Fund</b>	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Tax Fund</b>	<b>Bond Redemption Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b><u>EXPENDITURES</u></b>							
<i>Instruction:</i>							
Regular Programs:							
Elementary	2,455,107	81,295	-	-	-	-	2,536,402
Middle/Junior High School	1,556,023	34,645	-	-	-	-	1,590,668
High School	1,895,192	44,845	-	-	-	-	1,940,037
Class Size Reduction	142,467	-	-	-	-	-	142,467
Special Programs:							
Programs for Special Education	-	15,980	1,348,946	-	-	-	1,364,926
Educationally Deprived	339,379	-	-	-	-	-	339,379
<i>Support Services:</i>							
Pupils:							
Attendance and Social Work	131,353	-	-	-	-	-	131,353
Guidance	348,189	-	-	-	-	-	348,189
Health Services	31,357	-	-	-	-	-	31,357
Psychological	-	-	92,841	-	-	-	92,841
Speech Pathology	-	-	188,378	-	-	-	188,378
Audiology Services	-	-	254	-	-	-	254
Student Therapy Services	-	-	116,504	-	-	-	116,504
Instructional Staff:							
Improvement of Instruction	121,272	242,478	-	-	-	-	363,750
Educational Media	392,704	289,670	-	-	-	-	682,374
General Administration:							
Board of Education	137,177	-	-	-	-	-	137,177
Executive Administration	175,323	-	-	-	-	-	175,323
School Administration:							
Office of the Principal	678,658	-	-	-	-	-	678,658
Business:							
Fiscal Services	213,210	11,568	-	-	-	-	224,778
Facilities Acquisition and Construction	-	279,991	-	-	-	27,062	307,053
Operation and Maintenance of Plant	1,350,267	33,497	-	-	-	-	1,383,764
Pupil Transportation	214,908	-	-	-	-	-	214,908
Central:							
Direction of Central Support Services	26,000	-	-	-	-	-	26,000
Special Education:							
Administrative Costs	-	-	111,551	-	-	-	111,551
Transportation Costs	-	-	19,975	-	-	-	19,975
Other Special Education Costs	-	-	3,000	-	-	-	3,000

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>General Fund</b>	<b>Capital Outlay Fund</b>	<b>Special Education Fund</b>	<b>Pension Tax Fund</b>	<b>Bond Redemption Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b><u>EXPENDITURES (Continued)</u></b>							
<i>Community Services:</i>							
Other	4,384	-	-	-	-	-	4,384
<i>Non-programmed Charges:</i>							
Early Retirement	115,674	-	-	42,705	-	-	158,379
<i>Debt Service:</i>							
Principal (Note 6)	-	390,000	-	-	575,000	-	965,000
Interest	-	247,330	-	-	59,725	-	307,055
<i>Co-Curricular Activities:</i>							
Male Activities	160,347	-	-	-	-	-	160,347
Female Activities	134,961	-	-	-	-	-	134,961
Combined Activities	169,661	64,529	-	-	-	-	234,190
Capital Outlay	-	196,170	-	-	-	4,006,953	4,203,123
<b>Total Expenditures</b>	<b>10,793,613</b>	<b>1,931,998</b>	<b>1,881,449</b>	<b>42,705</b>	<b>634,725</b>	<b>4,034,015</b>	<b>19,318,505</b>
<b>Excess of Revenue Over (Under)</b>							
Expenditures	181,260	675,319	(31,478)	208,831	(206,949)	(3,928,181)	(3,101,198)
<b>Other Financing Sources</b>							
Transfers In (Note 10)	196,368	-	-	-	-	-	196,368
<b>Total Other Financing Sources</b>	<b>196,368</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>196,368</b>
<b>Net Change in Fund Balances</b>	<b>377,628</b>	<b>675,319</b>	<b>(31,478)</b>	<b>208,831</b>	<b>(206,949)</b>	<b>(3,928,181)</b>	<b>(2,904,830)</b>
<b>Fund Balance -- June 30, 2007</b>	<b>3,416,849</b>	<b>2,028,764</b>	<b>387,493</b>	<b>318,995</b>	<b>889,717</b>	<b>4,517,782</b>	<b>11,559,600</b>
<b>Fund Balance -- June 30, 2008</b>	<b>\$ 3,794,477</b>	<b>\$ 2,704,083</b>	<b>\$ 356,015</b>	<b>\$ 527,826</b>	<b>\$ 682,768</b>	<b>\$ 589,601</b>	<b>\$ 8,654,770</b>

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

Net Change in Fund Balances - Total Governmental Funds \$ (2,904,830)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 3,887,017

In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be available. This amount reflects the application of both the application period and availability criteria. 7,231

Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when the employees earn leave credits or elect to retire early. 24,166

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 965,000

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities. (175,008)

---

<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 1,803,576</b>
--	---------------------

---

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**PROPRIETARY FUND BALANCE SHEET**

**JUNE 30, 2008**

	<b>Food Service Fund</b>
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 120,022
Inventory of Supplies	1,904
Inventory of Stores Purchased for Resale	6,105
Inventory of Donated Food	11,582
<b>Total Current Assets</b>	<b>139,613</b>
Noncurrent Assets:	
Capital Assets (Note 5):	
Machinery and Equipment	284,635
Less Accumulated Depreciation	(235,881)
<b>Total Noncurrent Assets</b>	<b>48,754</b>
<b>TOTAL ASSETS</b>	<b>\$ 188,367</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Other Current Liabilities	\$ 25
<b>NET ASSETS</b>	
Invested in Capital Assets	48,754
Unrestricted Net Assets	139,588
<b>Total Net Assets</b>	<b>188,342</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 188,367</b>

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Food Service Fund</b>	<b>Internal Service Fund</b>
<b>Operating Revenue</b>		
<i>Sales:</i>		
To Pupils	\$ 292,674	\$ -
To Adults	34,471	-
A La Carte	552	-
Insurance Premiums	-	565,892
<b>Total Operating Revenue</b>	<b>327,697</b>	<b>565,892</b>
<b>Operating Expenses</b>		
Salaries	226,655	-
Employee Benefits	57,119	-
Purchased Services	855	-
Supplies	4,536	-
Cost of Sales - Purchased Food	182,651	-
Cost of Sales - Donated Food	49,025	-
Depreciation - Local Funds	12,262	-
Insurance Costs	-	545,087
<b>Total Operating Expenses</b>	<b>533,103</b>	<b>545,087</b>
<b>Operating Income (Loss)</b>	<b>(205,406)</b>	<b>20,805</b>
<b>Nonoperating Revenue</b>		
<i>Local Sources:</i>		
Interest Earnings	691	555
Miscellaneous Revenue from Other Sources	374	-
<i>Federal Sources:</i>		
Cash Reimbursements	185,396	-
Donated Food	50,130	-
<b>Total Nonoperating Revenue</b>	<b>236,591</b>	<b>555</b>
Transfers Out (Note 10)	-	(196,368)
<b>Change in Net Assets</b>	<b>31,185</b>	<b>(175,008)</b>
<b>Net Assets -- June 30, 2007</b>	<b>157,157</b>	<b>175,008</b>
<b>Net Assets -- June 30, 2008</b>	<b>\$ 188,342</b>	<b>\$ -</b>

The accompanying notes are an integral part of this statement.



**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**PROPRIETARY FUNDS STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Food Service Fund</b>	<b>Internal Service Fund</b>
<b>Cash Flows From Operating Activities:</b>		
Receipts from Customers	\$ 327,697	\$ -
Receipts from Interfund Services Provided	-	565,892
Payments to Suppliers	(188,544)	-
Payments to Employees	(283,774)	-
Premiums Paid	-	(490,750)
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>(144,621)</b>	<b>75,142</b>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Federal Operating Subsidies	185,396	-
State Operating Subsidies	374	-
Transfer to General Fund	-	(196,368)
<b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>	<b>185,770</b>	<b>(196,368)</b>
<b>Cash Flows Provided by Investing Activities:</b>		
Interest Earnings	691	555
<b>Net Increase (Decrease) in Cash and Investments During the Fiscal Year</b>	<b>41,840</b>	<b>(120,671)</b>
Cash -- June 30, 2007	78,182	120,671
<b>Cash -- June 30, 2008</b>	<b>\$ 120,022</b>	<b>\$ -</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities</b>		
Operating Income (Loss)	\$ (205,406)	\$ 20,805
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>		
Cost of Sales - Donated Food	49,025	-
Depreciation Expense	12,262	-
Increase in Inventories	(502)	-
Decrease in Prepaid Insurance	-	54,337
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>\$ (144,621)</b>	<b>\$ 75,142</b>
<b>Noncash Investing, Capital and Financing Activities:</b>		
Value of Commodities Received	\$ 50,130	\$ -

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2008**

	<b>Private-Purpose Trust Fund</b>	<b>Agency Funds</b>
<b><u>ASSETS</u></b>		
Cash	\$ 97,754	\$ 314,068
<b><u>LIABILITIES</u></b>		
Amounts Held for Others	-	\$ 314,068
Total Liabilities	-	\$ 314,068
<b><u>NET ASSETS</u></b>		
Reserved for Scholarships	\$ 97,754	

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Private-Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Donations	\$ 7,199
<b>DEDUCTIONS</b>	
Scholarships Awarded	2,100
<b>Change in Net Assets</b>	<b>5,099</b>
Net Assets - June 30, 2007	92,655
<b>Net Assets - June 30, 2008</b>	<b>\$ 97,754</b>

The accompanying notes are an integral part of this statement.

## **SPEARFISH SCHOOL DISTRICT NO. 40-2**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008**

#### **(1) Summary of Significant Accounting Policies**

##### **a. Reporting Entity**

The reporting entity of Spearfish School No. 40-2 (the District) consists of the primary governments (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The funds included in this report are controlled by or dependent upon the District's Board of Education. The District participates in a cooperative service unit with 11 other school districts. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are disclosed in these notes because of the nature of their relationship with the District. See Note 7 entitled "Joint Venture" for specific disclosures. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

##### **b. Basis of Presentation**

###### *Government-Wide Statements:*

The Statement of Net Assets and the Statement of Activities display information about the primary government of the District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Net Assets reports all financial and capital resources, in a balance sheet form (assets equal liabilities plus net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**b. Basis of Presentation (Continued)**

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, propriety, and fiduciary. An emphasis is placed on major funds within the governmental and propriety categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least five percent of the corresponding total of all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

**General Fund** - The General Fund is established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The Special Education, Pension Tax, and Capital Outlay Funds are the special revenue funds maintained by the District.

**Debt Service Funds** - Debt Service Funds are used to account for resources for, and the payment of, general long-term debt principal, interest, and related costs. There is one debt service fund.

**Capital Projects Fund** - The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). There is one capital projects fund.

Proprietary Funds:

**Enterprise Funds** - Enterprise Funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Food Service Fund is the only enterprise fund maintained by the District.

**Internal Service Funds** - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments, on a cost-reimbursement basis. Internal Service Funds are never considered to be major funds. The Health Insurance Fund is the only internal service fund maintained by the District.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**b. Basis of Presentation (Continued)**

**Fiduciary Funds:**

Fiduciary Funds are never considered to be major funds.

**Private-Purpose Trust Funds** - Private-Purpose Trust Funds are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund that was established by a donation made to the District for payment of scholarships to District students.

**Agency Funds** - Agency Funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of Agency Funds. Agency Funds are established to account for the monies earned by student organizations for various expenditures. Another Agency Fund accounts for the monies contributed by employees for health and dependent care expenses.

**Major Funds:**

Following is a list of major funds:

<u>Fund</u>	<u>Brief Description</u>
General Fund	A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the District, excluding capital outlay fund and special education fund expenditures.
<i>Special Revenue Funds:</i>	
Capital Outlay Fund	A fund established by SDCL 13-16-6 to meet expenditures which result in the acquisition of or additions to real property, plant or equipment, textbooks, and instructional software. This fund is financed by property taxes.
Special Education Fund	A fund established by SDCL 13-37-16 to account for the costs associated with the special education of children in need of special and prolonged assistance who reside within the District. This fund is financed by grants and property taxes.
Pension Tax Fund	A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes.
<i>Debt Service Fund:</i>	
Bond Redemption Fund	A fund established by SDCL 13-16-13 to account for the proceeds of special property taxes restricted to use for the payment of principal and interest on general obligation bonded debt. This fund is the only debt service fund maintained by the District.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**b. Basis of Presentation (Concluded)**

**Major Funds (Continued):**

*Capital Projects Fund:*  
**Capital Projects Fund**

A fund established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments). This fund is financed by debt proceeds.

*Enterprise Fund:*  
**Food Service Fund**

A fund established to record the financial transactions related to the K-12 food services operation. This fund is financed by user charges and grants.

**c. Measurement Focus and Basis of Accounting**

Measurement focus is a term to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

**Measurement Focus:**

*Government-Wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

*Fund Financial Statements:*

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

**Basis of Accounting:**

*Government-Wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned, and expenses and related liabilities are recorded when an obligation is incurred.

*Fund Financial Statements:*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the School District, the length of that cycle is 60 days.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**c. Measurement Focus and Basis of Accounting (Continued)**

**Basis of Accounting (Continued):**

*Fund Financial Statements (Continued):*

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All propriety funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Enterprise funds and business-type activities do not apply FASB Statements and Interpretations issued after November 30, 1989, if they conflict with GASB pronouncements.

**d. Interfund Eliminations and Reclassifications**

*Governmental-Wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain centralized expenses are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the general fund so that expenses are reported only in the function to which they relate.

*Fund Financial Statements:*

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account, which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. All interfund loans receivable (reported in "Due from" asset accounts) are considered "available, spendable resources."

**e. Capital Assets**

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or propriety fund operations and whether they are reported in the governmental-wide or fund financial statements.



**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**e. Capital Assets (Continued)**

*Government-Wide Statements:*

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for land, buildings, improvements, and equipment are all set at \$5,000. The depreciation method used for buildings and machinery and equipment is straight-line. Land is not depreciated.

The estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Buildings	50-100 years
Machinery and Equipment	7-30 years

*Fund Financial Statements:*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in the proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

**f. Long-Term Liabilities**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of compensated absences payable, early retirement payable, general obligation bonds, and general obligation certificates (see Note 6).

Compensated absences consist of annual vacation and sick leave earned. Annual leave is earned by full-time, 12-month employees at the rate of 10 to 20 days per year, depending upon years of service. Upon termination, employees are entitled to receive compensation for their current fiscal year accrual at their current rate of pay. Any previous years' balances are forfeited.

Sick leave is earned by the employees at a rate equal to the number of hours worked in a day times the number of months worked for all full-time 12-, 10-, and 9-month employees and part-time 12- and 10-month employees; the number of days accumulated is not limited. Upon termination, some employees are entitled to receive compensation for their accrued sick leave balance. Those with six years of service or more will receive compensation at the rate of \$15.00 per day of accumulated leave.

Full-time teachers and administrators may participate in an early retirement program. Upon meeting certain criteria and board approval, terminating eligible employees may receive cash benefits equal to their current salary times five percent times their years of service (maximum of 20 years). The benefit may be paid in one payment or multiple payments. A long-term liability is recognized for the total benefits payable in future periods for ten employees who have applied and been approved for separation (see Note 6). No discount rate was used to estimate the effect of making the cash payments over a three year period.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**f. Long-Term Liabilities (Continued)**

Funding for compensated absences and early retirement are expended in the general fund and the pension tax fund.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for the proprietary fund long-term debt is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

**g. Program Revenues**

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets used in a particular program.

**h. Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

**i. Inventory**

Inventory of the Enterprise Fund and business-type activities is valued at the lower of cost or market value. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

Inventory in the Enterprise Fund and business-type activities consists of food and supplies held for consumption. Inventory is recorded at the time individual inventory items are purchased and expensed when used.

As of June 30, 2008, no significant amounts of supplies inventory were on hand for the governmental funds.

**j. Deposits and Investments**

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized on the next page:

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Continued)**

**j. Deposits and Investments (Continued)**

**Deposits** – The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**Investments** – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2008, the District's cash and investments consisted only of checking, savings, and certificates of deposit. All of these accounts are insured or collateralized in the District's name.

State law allows income from deposits to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits to the fund making the investment.

*Interest Rate Risk:*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk:*

State law limits eligible investments for the District as discussed above. The District has no investment policy that would further limit its investment choices.

*Custodial Credit Risk:*

The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2008, none of the District's deposits were exposed to custodial credit risk.

*Concentration Risk:*

The District places no limit on the amount that they may be invested in any one issuer.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2008**

**(1) Summary of Significant Accounting Policies (Concluded)**

**k. Deferred Revenue**

Under the modified accrual basis of accounting, receivables may be measurable but not available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. These consist primarily of property tax revenue (Note 2).

**l. Cash and Cash Equivalents**

For the purpose of the Statement of Cash Flows, the District considers all highly liquid deposits and investments (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

**m. Equity Classifications**

*Government-Wide Statements:*

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements.

**n. Application of Net Assets**

It is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**(2) Property Taxes**

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the District's taxes and remits them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Current year property taxes receivable, which are not available as a resource that can be used to finance the current year's appropriations and therefore are not susceptible to accrual, have been deferred and are not reported as revenue.

**SPEARFISH SCHOOL DISTRICT NO. 40-2****NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008****(3) Due from Other Governments**

Amounts due from state governments include grant reimbursements due from the State of South Dakota in the amount of \$137,413.

**(4) Retirement Plan -- South Dakota Retirement System**

The following summary description of participation in the South Dakota Retirement System (the System) is provided for general information purposes. Participants should refer to South Dakota Codified Law (SDCL) 3-12 and employee handbooks for more complete information.

All employees, working more than 20 hours per week during the school year, participate in the System, a cost sharing, multiple employer, public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The System provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Covered employees (Class A Members) are required by state statute to contribute six percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the System for the fiscal years ended June 30, 2008, 2007, 2006, and 2005 were \$494,240, \$469,440, \$445,504, and \$458,070 respectively, equal to the required contributions each year.

**(5) Changes in Capital Assets**

Changes in capital assets used in governmental activities were as follows during the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Transfers/ Retirements	Balance June 30, 2008
<b>Governmental Activities</b>				
<i>Capital Assets, not Depreciated</i>				
Land	\$ 146,305	\$ -	\$ -	\$ 146,305
Construction in Progress	531,238	4,017,353	(24,200)	4,524,391
<i>Capital Assets, Depreciated</i>				
Buildings	18,730,409	-	-	18,730,409
Outdoor Equipment	65,385	-	-	65,385
Equipment -- Local Funds	1,820,797	185,770	24,200	2,030,767
	21,294,134	4,203,123	-	25,497,257
<i>Less Accumulated Depreciation</i>				
Buildings	4,432,380	192,606	-	4,624,986
Outdoor Equipment	27,898	3,269	-	31,167
Equipment -- Local Funds	867,888	120,231	-	988,119
	5,328,166	316,106	-	5,644,272
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 15,965,968</b>	<b>\$ 3,887,017</b>	<b>\$ -</b>	<b>\$ 19,852,985</b>

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2008**

**(5) Changes in Capital Assets (Continued)**

Depreciation expense was charged to functions within governmental activities as follows:

Instruction	\$	232,723
Support Services		56,294
Co-curricular Activities		27,089
<b>Total Depreciation Expense</b>	<b>\$</b>	<b>316,106</b>

Changes in capital assets used in business-type activities were as follows during the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Transfers/ Retirements	Balance June 30, 2008
<b>Business-Type Activities</b>				
Machinery and Equipment	\$ 284,635	\$ -	\$ -	\$ 284,635
Less Accumulated Depreciation	(223,619)	(12,262)	-	(235,881)
<b>Business -Type Activity Capital Assets, Net</b>	<b>\$ 61,016</b>	<b>\$ (12,262)</b>	<b>\$ -</b>	<b>\$ 48,754</b>

The District has construction commitments of approximately \$500,000 as of June 30, 2008 relating to the High School Addition Project and the West Elementary Air Conditioning Project. The District intends to finance these projects through previous debt proceeds and through existing net assets in the Capital Outlay Fund.

**(6) Long-Term Debt**

The following is a summary of the changes in long-term liabilities during the year ended June 30, 2008:

	2007 General Obligation Certificates	2005 General Obligation Bonds	Early Retirement Payable	Compensated Absences Payable	Total
<b>Governmental Activities</b>					
June 30, 2007 Balance	\$ 5,000,000	\$ 2,085,000	\$ 309,655	\$ 214,116	\$ 7,608,771
Compensated Absences Earned	-	-	-	314,000	314,000
Compensated Absences Used	-	-	-	(343,772)	(343,772)
New Retirees Approved	-	-	163,985	-	163,985
Payments to Retirees	-	-	(158,379)	-	(158,379)
New Debt Issues	-	-	-	-	-
Retired Amounts	(390,000)	(575,000)	-	-	(965,000)
<b>June 30, 2008 Balance</b>	<b>\$ 4,610,000</b>	<b>\$ 1,510,000</b>	<b>\$ 315,261</b>	<b>\$ 184,344</b>	<b>\$ 6,619,605</b>
<b>Due Within One Year</b>	<b>\$ 470,000</b>	<b>\$ 585,000</b>	<b>\$ 152,047</b>	<b>\$ 184,344</b>	<b>\$ 1,391,391</b>

The compensated absences will be paid from the General Fund, and the early retirement payable will be paid from the General Fund and the Pension Tax Fund.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2008**

**(6) Long-Term Debt (Continued)**

Long-term liabilities, other than compensated absences and early retirement payable, are comprised of the following:

*General Obligation Bonds:*

2005 General Obligation Refunding School Building Bonds; mature July 1, 2011; bearing interest at fixed rates from 2.80 to 3.25 percent; paid from the Debt Service Fund. \$ 1,510,000

2007 General Obligation Certificates; mature December 2016; bearing interest at fixed rates from 3.55 to 3.90 percent; paid from the Capital Outlay Fund. 4,610,000

**\$ 6,120,000**

The annual requirements to amortize all debt outstanding as of June 30, 2008, excluding compensated absences, are as follows:

Year Ending June 30,	2005 General Obligation		2007 General Obligation		Early Retirement	Totals
	Principal	Interest	Principal	Interest		
2009	\$ 585,000	\$ 42,576	\$ 470,000	\$ 169,138	\$ 152,047	\$ 1,418,761
2010	605,000	24,577	485,000	151,950	120,710	1,387,237
2011	320,000	7,760	505,000	133,880	42,504	1,009,144
2012	-	-	525,000	115,010	-	640,010
2013	-	-	545,000	95,200	-	640,200
2014-2016	-	-	2,080,000	163,949	-	2,243,949
	\$ 1,510,000	\$ 74,913	\$ 4,610,000	\$ 829,127	\$ 315,261	\$ 7,339,301

**(7) Joint Venture**

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2008, the District paid **\$530,768** for services provided by the co-op.

The members of the co-op and their relative percentage participation in the co-op are as follows:

Spearfish School District No. 40-2	8.33%
Lead-Deadwood School District No. 40-1	8.33%
Oelrichs School District No. 23-3	8.33%
Meade School District No. 46-1	8.33%
Rapid City Area School District No. 51-4	8.33%
Belle Fourche School District No. 9-1	8.33%
Custer School District No. 16-1	8.33%
Douglas School District No. 51-1	8.33%
Edgemont School District No. 23-1	8.33%
Haakon School District No. 27-1	8.33%
Hill City School District No. 51-2	8.33%
Hot Springs School District No. 23-2	8.33%

## **SPEARFISH SCHOOL DISTRICT NO. 40-2**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2008**

#### **(7) Joint Venture (Continued)**

The co-op's governing board is composed of one representative from each member school district, who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The District retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative. At June 30, 2008, this joint venture had total fund equity of \$710,642 (unaudited) and long-term debt of \$972,285 (unaudited).

#### **(8) Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2008, the District managed its risks as follows:

##### *Property/Liability Insurance*

The District joined the Associated School Boards of South Dakota Property Liability Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the District. The District pays an annual premium to the pool to provide coverage for automobile and school bus, general liability, property damage, and professional liability errors and omissions.

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage will be provided to a \$6,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The District carries a \$500 deductible for the property damage coverage and commercial automobile coverage and \$1,000 for the school leader's professional liability coverage.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

##### *Workmen's Compensation*

The District participates, with several other educational units and related organizations in South Dakota, in the ASBSD Worker's Compensation Fund Pool, which provides workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for the coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy. The District's premiums are accrued based on the ultimate cost of the experience to date of the Fund members.



**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)**

**JUNE 30, 2008**

**(8) Risk Management (Continued)**

*Workmen's Compensation (Continued)*

The District is responsible for payment of a premium to the insurance pool along with other pool participants. The District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the year ended June 30, 2008, the pool's retained risk was \$300,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$700,000 for total coverage of \$1,000,000 per occurrence. There was no additional assessment charged to pool members for the year ended June 30, 2008. Settled claims resulting from these risks have never exceeded the coverage.

*Health Insurance*

The District purchases health insurance for its employees from a commercial insurance carrier. The health insurance plan is accounted for in the Internal Service Fund of the District. The District pays for a portion of qualified employees' health insurance premiums as an employee benefit. In addition, certain employees that elect not to participate in the District's health insurance plan receive a cash option.

*Unemployment Benefits*

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

**(9) Contingency**

The District participates in a number of federal programs that are subject to compliance audits under OMB Circular A-133. From the 2007 compliance audit, there were questioned costs to the U.S. Department of Education of \$10,890. The ultimate resolution of any liability for these questioned costs will be made by the federal agency.

**(10) Individual Fund Interfund Transactions**

During the fiscal year, the following amounts were transferred between funds:

<u>Fund</u>	Transfer <u>From</u>	Transfer <u>To</u>
Internal Service Fund	\$ 196,368	\$ -
General Fund	-	196,368

The transfer was to close out the Internal Service Fund to the General Fund as the District is now purchasing health insurance from a commercial carrier and all interfund loans have been repaid.

## REQUIRED SUPPLEMENTARY INFORMATION

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad Valorem Taxes	\$ 5,269,089	\$ 5,269,089	\$ 5,167,973	\$ (101,116)
Prior Years' Ad Valorem Taxes	47,000	47,000	77,932	30,932
Gross Receipts Taxes	150,000	150,000	150,290	290
Penalties and Interest on Taxes	11,000	11,000	13,072	2,072
<i>Tuition and Fees:</i>				
Regular Day School Tuition	10,000	10,000	18,440	8,440
Summer Fee Tuition	2,000	2,000	-	(2,000)
<i>Earnings on Interest-Bearing Accounts:</i>				
Interest Earned	75,000	75,000	118,246	43,246
<i>Co-Curricular Activities:</i>				
Admissions	40,000	40,000	47,064	7,064
Pupil Organization Memberships	10,000	10,000	10,470	470
Rentals	1,250	1,250	801	(449)
<i>Other Local Revenue:</i>				
Rentals	20,000	20,000	15,201	(4,799)
Other	70,000	70,000	109,322	39,322
<i>Revenue from Intermediate Sources:</i>				
<i>County Sources:</i>				
County Apportionment	340,000	340,000	390,858	50,858
<i>Revenue from State Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted Grants-in-Aid	4,013,511	4,013,511	4,195,736	182,225
Other State Revenue	85,000	85,000	-	(85,000)
<i>Revenue from Federal Sources:</i>				
<i>Grants-in-Aid:</i>				
Unrestricted Grants-in-Aid Received from Federal Government Through State	87,000	87,000	87,500	500
Restricted Grants-in-Aid Received from Federal Government Through State	623,380	660,794	571,968	(88,826)
Other Federal Revenue	5,000	5,000	-	(5,000)
<b>Total Revenues</b>	<b>10,859,230</b>	<b>10,896,644</b>	<b>10,974,873</b>	<b>78,229</b>

**EXPENDITURES**

*Instruction:*

*Regular Programs:*

Elementary	2,583,724	2,621,138	2,455,107	166,031
Middle/Junior High School	1,610,962	1,610,962	1,556,023	54,939
High School	1,917,106	1,917,106	1,895,192	21,914
Class Size Reduction	162,943	162,943	142,467	20,476

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
<i>Instruction (Continued):</i>				
Special Programs:				
Educationally Deprived	356,996	356,996	339,379	17,617
<i>Support Services:</i>				
Pupils:				
Attendance and Social Work	16,818	16,818	131,353	(114,535)
Guidance	367,039	367,039	348,189	18,850
Health Services	29,480	29,480	31,357	(1,877)
Instructional Staff:				
Improvement of Instruction	5,966	5,966	121,272	(115,306)
Educational Media	428,959	428,959	392,704	36,255
General Administration:				
Board of Education	178,857	178,857	137,177	41,680
Executive Administration	170,503	170,503	175,323	(4,820)
School Administration:				
Office of the Principal	675,429	675,429	678,658	(3,229)
Business:				
Fiscal Services	200,951	200,951	213,210	(12,259)
Operation and Maintenance of Plant	1,403,005	1,403,005	1,350,267	52,738
Pupil Transportation	234,000	234,000	214,908	19,092
Internal Service	10,000	10,000	-	10,000
Central:				
Direction of Central Support Services				
<i>Community Services:</i>	-	-	26,000	(26,000)
Other	8,524	8,524	4,384	4,140
<i>Nonprogrammed Charges:</i>				
Early Retirement	69,973	69,973	115,674	(45,701)
<i>Co-Curricular Activities:</i>				
Male Activities	165,677	165,677	160,347	5,330
Female Activities	158,406	158,406	134,961	23,445
Combined Activities	183,850	183,850	169,661	14,189
<b>Total Expenditures</b>	<b>10,939,168</b>	<b>10,976,582</b>	<b>10,793,613</b>	<b>182,969</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(79,938)</b>	<b>(79,938)</b>	<b>181,260</b>	<b>261,198</b>
<b>Other Financing Sources</b>				
Transfer In	-	-	196,368	196,368
<b>Net Change in Fund Balance</b>	<b>(79,938)</b>	<b>(79,938)</b>	<b>377,628</b>	<b>457,566</b>
<b>Fund Balance -- June 30, 2007</b>	<b>3,416,849</b>	<b>3,416,849</b>	<b>3,416,849</b>	<b>-</b>
<b>Fund Balance -- June 30, 2008</b>	<b>\$ 3,336,911</b>	<b>\$ 3,336,911</b>	<b>\$ 3,794,477</b>	<b>\$ 457,566</b>

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2****BUDGETARY COMPARISON SCHEDULE  
CAPITAL OUTLAY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 2,465,122	\$ 2,465,122	\$ 2,451,903	\$ (13,219)
Prior Years' Ad Valorem Taxes	16,000	16,000	29,683	13,683
Penalties and Interest on Taxes	3,000	3,000	5,259	2,259
Earnings on Interest-Bearing Accounts:				
Interest Earned	40,000	40,000	68,634	28,634
<i>Revenue from State Sources:</i>				
Other State Revenue	1,000	1,000	51,838	50,838
<b>Total Revenues</b>	<b>2,525,122</b>	<b>2,525,122</b>	<b>2,607,317</b>	<b>82,195</b>
<b>EXPENDITURES</b>				
<i>Instruction:</i>				
Regular Programs:				
Elementary	73,800	73,800	81,295	(7,495)
Middle/Junior High School	49,000	49,000	34,645	14,355
High School	72,000	72,000	44,845	27,155
Special Programs:				
Programs for Special Education	16,000	16,000	15,980	20
<i>Support Services:</i>				
Instructional Staff:				
Improvement of Instruction	235,000	235,000	242,478	(7,478)
Educational Media	295,830	295,830	289,670	6,160
Business:				
Fiscal Services	13,100	13,100	11,568	1,532
Facilities Acquisition and Construction	637,050	637,050	476,161	160,889
Operation and Maintenance of Plant	22,000	22,000	33,497	(11,497)
<i>Debt Service:</i>				
Principal	459,422	459,422	390,000	69,422
Interest	177,508	177,508	247,330	(69,822)
<i>Co-Curricular Activities:</i>				
Combined Activities	51,250	51,250	64,529	(13,279)
<b>Total Expenditures</b>	<b>2,101,960</b>	<b>2,101,960</b>	<b>1,931,998</b>	<b>169,962</b>
<b>Net Change in Fund Balance</b>	<b>423,162</b>	<b>423,162</b>	<b>675,319</b>	<b>252,157</b>
Fund Balance -- June 30, 2007	2,028,764	2,028,764	2,028,764	-
<b>Fund Balance -- June 30, 2008</b>	<b>\$ 2,451,926</b>	<b>\$ 2,451,926</b>	<b>\$ 2,704,083</b>	<b>\$ 252,157</b>

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**BUDGETARY COMPARISON SCHEDULE  
SPECIAL EDUCATION FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
<i>Revenue from Local Sources:</i>				
Taxes:				
Ad Valorem Taxes	\$ 1,314,331	\$ 1,314,331	\$ 1,144,241	\$ (170,090)
Prior Years' Ad Valorem Taxes	7,500	7,500	13,852	6,352
Penalties and Interest on Taxes	1,500	1,500	2,454	954
Earnings on Interest-Bearing Accounts:				
Interest Earned	5,000	5,000	1,400	(3,600)
<i>Revenue from State Sources:</i>				
Other State Revenue	213,548	213,548	289,923	76,375
<i>Revenue from Federal Sources:</i>				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through State	335,000	335,000	398,101	63,101
<b>Total Revenues</b>	<b>1,876,879</b>	<b>1,876,879</b>	<b>1,849,971</b>	<b>(26,908)</b>
<b>EXPENDITURES</b>				
<i>Instruction:</i>				
Special Programs:				
Programs for Special Education	1,402,993	1,402,993	1,348,946	54,047
<i>Support Services:</i>				
Pupils:				
Psychological	85,842	85,842	92,841	(6,999)
Speech Pathology	180,390	180,390	188,378	(7,988)
Audiology Services	-	-	254	(254)
Student Therapy Services	77,000	77,000	116,504	(39,504)
Special Education:				
Administrative Costs	121,069	121,069	111,551	9,518
Transportation Costs	15,900	15,900	19,975	(4,075)
Other Special Education Costs	8,040	8,040	3,000	5,040
<b>Total Expenditures</b>	<b>1,891,234</b>	<b>1,891,234</b>	<b>1,881,449</b>	<b>9,785</b>
<b>Net Change in Fund Balance</b>	<b>(14,355)</b>	<b>(14,355)</b>	<b>(31,478)</b>	<b>(17,123)</b>
<b>Fund Balance -- June 30, 2007</b>	<b>387,493</b>	<b>387,493</b>	<b>387,493</b>	<b>-</b>
<b>Fund Balance -- June 30, 2008</b>	<b>\$ 373,138</b>	<b>\$ 373,138</b>	<b>\$ 356,015</b>	<b>\$ (17,123)</b>

The accompanying notes are an integral part of this statement.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**BUDGETARY COMPARISON SCHEDULE  
PENSION TAX FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
<i>Revenue from Local Sources:</i>				
<i>Taxes:</i>				
Ad Valorem Taxes	\$ 246,512	\$ 246,512	\$ 245,225	\$ (1,287)
Prior Years' Ad Valorem Taxes	1,400	1,400	2,969	1,569
Penalties and Interest on Taxes	-	-	526	526
<i>Earnings on Interest-Bearing Accounts:</i>				
Interest Earned	2,000	2,000	2,816	816
<b>Total Revenues</b>	<b>249,912</b>	<b>249,912</b>	<b>251,536</b>	<b>1,624</b>
<b>EXPENDITURES</b>				
<i>Non-programmed Charges:</i>				
Early Retirement	249,912	249,912	42,705	207,207
<b>Total Expenditures</b>	<b>249,912</b>	<b>249,912</b>	<b>42,705</b>	<b>207,207</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>208,831</b>	<b>208,831</b>
<b>Fund Balance -- June 30, 2007</b>	<b>318,995</b>	<b>318,995</b>	<b>318,995</b>	<b>-</b>
<b>Fund Balance -- June 30, 2008</b>	<b>\$ 318,995</b>	<b>\$ 318,995</b>	<b>\$ 527,826</b>	<b>\$ 208,831</b>

The accompanying notes are an integral part of this statement.

## **SPEARFISH SCHOOL DISTRICT NO. 40-2**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2008**

#### **(1) Basis of Presentation**

The Budgetary Comparison Schedule has been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule presents expenditures for capital outlay purposes within each function while the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances presents capital outlay expenditures as a separate function.

#### **(2) Budgetary Legal Requirements**

South Dakota Codified Law prescribes the budgetary procedures followed by the District as follows:

1. Prior to the first regular board meeting in May of each year, the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets when monies are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board. The District does not employ encumbrance accounting as an extension of formal budgetary integration.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Formal budgetary integration is not employed for debt service funds through general obligation bond indenture provisions or for capital projects funds. Generally accepted accounting principles prescribe that budgetary information be presented for the general fund and major special revenue funds of the District only.



## SINGLE AUDIT SECTION

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2008**

**Status of Prior Audit Findings and Recommendations:**

The findings #07-2 and #07-3 have been restated in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. Finding #07-4 has been modified for fiscal year 2008 as 07-4(a) was corrected, 07-4(b) was partially corrected, and 07-4(c) was mitigated with other controls.

Finding #07-1 has not been restated in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as the District implemented the corrective action plan.

## **SPEARFISH SCHOOL DISTRICT NO. 40-2**

### **SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN JUNE 30, 2008**

#### **A. SUMMARY OF AUDIT RESULTS**

1. The independent auditor's report expresses an unqualified opinion on the financial statements of Spearfish School District No. 40-2 (the District).
2. Four significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards. Two of these conditions are reported as material weaknesses.
3. No instances of noncompliance material to the District's financial statements were disclosed during the audit.
4. Two significant deficiencies disclosed during the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. One deficiency is reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion.
6. The audit findings related to the major federal award programs are reported in Part C of this schedule.
7. The programs tested as major programs (or cluster) were:
  - a. Special Education -- State Grants (P.L. 99-94-142), CFDA 84.027
  - b. Special Education -- Preschool Grants (P.L. 99-457), CFDA 84.173
  - c. Title I Programs -- Local Educational Agencies, CFDA 84.010
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The District was not determined to be a low-risk auditee.

#### **B. FINDINGS -- FINANCIAL STATEMENT AUDIT**

##### **Significant Deficiencies -- Material Weaknesses in Internal Control**

##### **07-2 FINDING: Internal Control over Significant Accounts:**

Condition: During the course of our engagement, we proposed material audit adjustments that resulted in a \$450,411 decrease in reported net income. Adjustments included adjusting long-term debt, adjusting federal revenues, adjusting due from other governments, adjusting the capital asset accounts, adjusting the early retirement payable, adjusting accounts payable, and adjusting the accrued leave liability. In addition, other entries were proposed as part of the audit, but were not recorded due to their overall insignificance to the financial statements.

Criteria and Effect: These adjustments would not have been identified as a result of the District's existing internal controls, and therefore, could have resulted in a material misstatement of the District's financial statements. Although this comment is repeated for fiscal year 2008, the District made improvements as the number and value of adjustments decreased.

Questioned Costs: None

Recommendation: We recommend changes in operations be continually reviewed for potential changes in accounting, so that the appropriate entries can be made throughout the year.

Response/Corrective Action Plan: In the future, the District will adjust the year end balances to reflect the necessary accruals. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE  
ACTION PLAN (CONTINUED)  
JUNE 30, 2008**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)**

**Significant Deficiencies – Material Weaknesses in Internal Control (Continued)**

**07-3 FINDING: Financial Statement Preparation:**

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the School Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for districts of your size. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied that the appropriate steps have been taken to provide the District with complete financial statements.

Criteria and Effect: It is our responsibility to inform the School Board that this deficiency could result in a material misstatement to the financial statements that would have not been prevented or detected by the District's management.

Questioned Costs: None

Recommendation: It is the School Board's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The District will evaluate the risk associated with this condition. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

**Significant Deficiencies – Not Material Weaknesses in Internal Control**

**08-1 FINDING: Expenditure Approval**

Condition: Of 20 disbursements selected, 4 did not have an approving signature on the purchase order or check voucher. Of the 44 employees selected for testing, we noted that 4 timecards were not signed by the supervisor. We also noted 2 of 44 employees selected for testing were not paid for the correct number of hours, which resulted in a minor underpayment and a minor overpayment.

Criteria and Effect: All invoices are approved by the School Board prior to payment. However, the District has the policy that all purchase orders, check vouchers, and time cards have an approving signature. Although proper supporting documentation was available for each item tested, the lack of approval indicates a break down in the District's internal control policies. If supporting documentation was not available, it could lead to serious issues, such as questioned costs on federal grants.

Questioned Costs: None

Recommendation: As a part of the District's internal control process, purchase orders, check vouchers, and timecards are signed to indicate approval. More due diligence should be used to ensure that these approvals are properly included. An accounts payable or payroll check should not be generated until such approval is received.

Response/Corrective Action Plan: The District will ensure that proper procedures and related approval are provided. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE  
ACTION PLAN (CONTINUED)  
JUNE 30, 2008**

**B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONCLUDED)**

**Significant Deficiencies – Not Material Weaknesses in Internal Control (Continued)**

**07-4 FINDING: Internal Control Deficiencies**

Condition: We noted the following lack of segregation of duties:

- a. The accounts payable clerk has access to the general ledger, check stock, signature disk, and mails signed checks. This risk is mitigated by the business manager reviewing the bank statements unopened and vendors' subsequent request for payment on overdue balances. In fiscal year 2008, the District added an additional mitigating control with the business manager randomly mailing/processing a portion of signed checks. As a result of the mitigating controls, an error or fraud would be detected, but not within a timely manner.
- b. Lunchroom personnel receive cash payments, enter payments into lunchroom software, and prepare hand receipt tickets of the sales versus cash. The deposit from the lunchrooms is not agreed to the lunchroom software. Lunchroom personnel could misappropriate a payment and omit such amount from the receipt ticket, which would go undetected by administration. This is mitigated by administrations' review of Food Service fund margins and meals served analysis.

Criteria and Effect: These findings result in a situation for which there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's management.

Questioned Costs: None

Recommendation: We recommend the following processes be implemented by the District:

- a. The business manager or superintendent's secretary (someone without access to the general ledger, signature disks, and checks) should prepare the signed checks for mailing. The District may also accept the risk associated with this lack of segregation of duties as mitigating controls are considered sufficient.
- b. A person independent of the food service activities and the cash deposit processes should agree the Food Service general ledger sales to reports from the lunchroom software at least on a monthly basis.

Response/Corrective Action Plan: The District will evaluate the proposed recommendations and determine if they are feasible for implementation. Craig Crosswait, Business Manager, is responsible for the corrective action plan for this finding.

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE  
ACTION PLAN (CONCLUDED)  
JUNE 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**Significant Deficiencies – Material Weaknesses in Internal Control**

Findings #07-3 and 08-1 listed in Part B relates to the major federal award programs that the District received, which is listed in this report and in the Schedule of Expenditures of Federal Awards as Title I (CDFA #84.010) and Special Education – State Grants and Preschool Grants (CFDA #84.027 and #84.173, respectively).

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	CFDA Numbers	2008 Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through the S.D. Department of Education:		
Food Distribution	10.550	\$ 49,025
Food Program Cluster:		
School Breakfast Program (Notes 2 and 4)	10.553	27,952
National School Lunch Program (Notes 2 and 4)	10.555	146,512
Special Milk Program for Children (Notes 2 and 4)	10.556	3,923
Pass- Through Lawrence County:		
School and Roads -- Grants to States (National Forest -- SDCL 41-16-14)	10.665	87,466
<b>Total U.S. Department of Agriculture</b>		<b>314,878</b>
 <i>U.S. Department of the Interior:</i>		
Pass-Through the S.D. Department of Education:		
National Mineral Leasing (Note 1)	15.299	34
 <i>U.S. Department of Education:</i>		
Pass-Through the S.D. Department of Education:		
Title I Programs -- Local Educational Agencies (Note 3)	84.010	319,395
Special Education - Grants for Infants and Families with Disabilities (IDEA Part C)	84.181	847
Special Education -- State Grants (P.L. 99-94-142) (Notes 3 and 5)	84.027	344,430
Special Education - Preschool Grants (P.L. 99-457) (Notes 3 and 5)	84.173	19,532
Safe and Drug-Free Schools & Communities -- State Grants (Title IV)	84.186	15,250
Fund for the Improvement of Education Title II Part D	84.215	5,226
Innovative Education Program Strategies (Title VI)	84.298	6,882
Improving Teacher Quality State Grants Title II Part A	84.367	182,693
<b>Total U.S. Department of Education</b>		<b>894,255</b>
 U.S. Department of Health and Human Services:		
Pass-Through the S.D. Department of Social Services		
Medical Assistant Program	93.778	75,814
 <b>Total</b>		<b>\$ 1,284,981</b>

**SPEARFISH SCHOOL DISTRICT NO. 40-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

- Note 1: Federal reimbursements are not based upon specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.
- Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.
- Note 3: This program was tested as a major program.
- Note 4: These programs make up the Child Nutrition Cluster.
- Note 5: These programs make up the Special Education Cluster.
- Note 6: The schedule of expenditures of federal awards is presented on the accrual basis of accounting.



## OTHER REPORTS



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

School Board  
Spearfish School District No. 40-2  
Spearfish, South Dakota

We have audited the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Spearfish, South Dakota as of and for the year ended June 30, 2008, and have issued our report thereon dated February 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings #07-2, #07-3, #07-4, and #08-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items #07-2 and #07-3 to be material weaknesses.

School Board  
Page 2

---

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District, and is not intended to be, and should not be, used by anyone other than those specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

  
KETEL THORSTENSON, LLP  
Certified Public Accountants

February 3, 2009



# Ketel Thorstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board  
Spearfish School District No. 40-2  
Spearfish, South Dakota

### Compliance

We have audited the compliance of **SPEARFISH SCHOOL DISTRICT NO. 40-2** (the District), Spearfish, South Dakota, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The District's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliances. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Part B, item #07-3 and #08-1 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance item #07-3 in the accompanying schedule of findings and questioned costs to be a material weakness.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Department of Education, the South Dakota Legislature, the governing board and management of the District, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP  
Certified Public Accountants

February 3, 2009